Murry Rothbard's Utility "Reconstruction"

By John V. Peters (May 16, 2020)

My thoughts on this subject have been gestating for a number of years now and it seems time to put them down in an essay. I first read Murray N. Rothbard's essay "A Reconstruction of Utility and Welfare Economics"[1] in June or July of 1963. At the time, when I was 19 years old, I was impressed by his essay. Today, at age 76, I feel that I have more knowledge and a better perspective. I don't think this is an idle exercise because I know that some people still believe that Murray was expressing some significant truths in this paper. So, let's begin.

Murray's writings almost universally avoid mathematics.[2] On the other hand, simply because Murray doesn't use mathematical symbols doesn't mean that he isn't setting forth rules that can be symbolically expressed. I will pull together his axioms and the deductions he purports to derive from them.

Murray's paper claims to operate from axioms and to derive logical deductions from those axioms, all stated in a literary form. Murray uses the words "axioms", "deduction" and

[1] "Toward a Reconstruction of Utility and Welfare Economics" by Murray N. Rothbard, in On Freedom and Free Enterprise: Essays in Honor of Ludwig von Mises (NY, NY: D. Van Nostrand, Inc., 1956), Chapter XVII, pp. 224-262. From extensive reading of Murray's books and articles, I believe this is the only time he ever purported to make an original contribution to economic theory. In this paper, I italicize my quotes from his paper and I underline quotes that he emphasized using italics in the original article.

[2] I am using the familiar first name for Murray because I met him in NYC in the mid-1960's and spent considerable time with him over several years while I was in college and again after I left the Army. I spent many hours with Murray and his wife Joey in their NYC apartment 2E at 215 West 88th Street, talking and laughing and talking some more. Anyone who knew Murray appreciates his infectious and irrepressible humor and his unlimited gift for gab.

"propositions" to give a patina of mathematical precision. On the other hand, he nowhere summarizes his logical system in terms of axioms, deductions and propositions, as any mathematician or scientist would do. We have to search back and forth in the article to identify the simple terms of his logical system. We will make explicit, where Murray does not, his axioms and deductions and the simple arithmetic of his social utility summation. His system is qualitative and characterizes utilities as positive, negative, zero, or unknown. And we will suggest the deductions that actually flow from his utility analysis. We will compare our results with what Murray claims are the implications of his utility analysis.

A Biographical Comment

Murray was a masterful writer of agitprop; he was just not a good scholar or scientist, as his father had wanted him to be. He had honed his literary and writing skills, his rhetorical skills, his emotive skills and his propaganda skills from his youngest days, when he spent hours debating with his mother's communist relatives, whom he shocked with his outrageous arguments and positions.[3] He continued his love of argument and expressed shocking positions in the classroom during his

[3] Young Murray Rothbard: An Autobiography by Murray N. Rothbard, written while he was in high school. Available at Mises.org. He says his chemist father gave him the middle name Newton because he wished his son to pursue a scientific career and make original contributions to human knowledge.

high school days.[4] At Columbia University, he was best known publicly as a member of the debate team and as a thespian.[5] He didn't belong to any academic or scholarly club at Columbia. Whether his anti-academic and anti-scientific pose was a rebellion against his father's hopes and expectations for his son we can leave for psychologists to sort out. His middle name "Newton" incorporated his father's deepest, but unfulfilled, longings for his son.

Utility Analysis

Most of Murray's paper examines the writings of others on utility and welfare analysis. Murray addresses most of the important historical contributions to utility and welfare analysis. But his actual remarks upon these contributions are often mistaken and prejudicial. The actual "reconstruction" section of the paper is the last section (Section V) before his

[4] Ibid. "I also liked to place myself in difficult historical situations, and see how I would have met those problems." One example is settling the slavery issue in America on the basis of "popular sovereignty," a doctrine understood at the time to enshrine slavery permanently where it existed and allow new territories to vote on its adoption. Young Murray doesn't say who would be allowed to vote in this context. Another example, regarding WWI, "I was the only one in the class who believed that Germany should be kept in a perpetual state of subjection…. I delighted in the ensuing debate with the other members of the class."

[5] Columbia Spectator archive, search Murray Rothbard. Murray was a Columbia undergraduate student from the fall of 1942 through the spring of 1945. Whether or when he received an MA is unclear. He was awarded a Ph.D. by Columbia in 1956. His advisor, Arthur F. Burns, a longtime family friend and co-resident at 370 Central Park West near the 97th Street Transverse of Central Park, rejected Murray's submitted thesis on the financial panic of 1819. Presumably, Murray was required to remove a lot of non-academic balderdash and agitprop before the thesis was approved, which was done after Arthur F. Burns went to Washington D.C. to head Richard Nixon's Council of Economic Advisers. This thesis was as close as Murray ever came to producing a legitimate scholarly work. It was published by Columbia University Press in 1962 as The Panic of 1819. In his book, The Ethics of Liberty (1982), page ix, Murray writes "I became a full-fledged and consistent libertarian in the winter of 1949-50"; this conversion undoubtedly contributed to his academic problems. Murray never seems to have recognized or acknowledged how closely he modeled the rigid Marxian or communist ideological purity of the true believers he jousted with as a youth.

"Conclusion," and consists of pages 249 through 260, just over 20 pages of the 38-page paper. Even in Section V, however, the actual constructive sections are only subsections a, b and c, consisting of four complete pages when pasted together. And a good deal of these four pages consists of rhetoric that contributes nothing to his argument.

Murray's Analytic System

We will now piece together his analytic system.

Section V(a) is titled "Demonstrated Preference and the Free Market" and consists of five short paragraphs. The first paragraph contains no substance. The second paragraph contains the following positive statements:

Demonstrated preference, as we remember, eliminates hypothetical imaginings about individual value scales.

…demonstrated preference only treats values as revealed through chosen action.

Let us consider exchanges on the free market.

…both parties benefit (or more strictly, expect, to benefit) from the exchange.

We should pause here to emphasize that Murray is only talking about expectations of those making free exchanges before the

exchange is made. Their motivation to trade is each's expectation of gain, he says.

The free market is the name for the array of all the voluntary exchanges that take place in the world.

…we must conclude that <u>the free market benefits all its participants.</u>

Murray is letting his rhetoric race ahead of his logic. By his definitions, participants in a free market exchange expect, before the exchange, to benefit. But he hasn't shown that the participants actually do benefit after the exchange has been made. What any of us expect before we make an exchange need not correspond to what we think after the exchange is made. Murray's conclusion "that the free market benefits all its participants" addresses utilities after an exchange is made, something his premises do not cover.

Although failing to see the logical flaw of his conclusion about after-the-fact outcomes, Murray recognizes that he has left out of his equation all of the people who did not participate in any given voluntary free market exchange. And so, he writes of these bystanders:

And we are not interested in his opinions about the exchanges made by <u>others</u>, since his preferences are not demonstrated through action and are therefore irrelevant.

This amounts to setting bystander values in the setting of voluntary exchanges to zero within his social utility calculus. If we designate actors by "A" and bystanders by "B", then A's utilities before an exchange are defined to be positive and B's utilities are defined to be zero. We have here two axioms. However, in Murray's system these axioms only apply to the utilities of expectations before the exchange is made. In Murray's system after-the-fact utilities of both actors and bystanders are hidden from view.

If, as Murray implicitly defines it, social utility means the sum of the utilities of the expectations of the actors in voluntary exchanges, Murray can deduce that the social utility of expectations is positive before an exchange is made. One might ask: So what? This hardly matches the high-flown rhetoric we saw earlier, namely," …we must conclude that *the free market benefits all its participants*." We now see that the rhetoric involves slight-of-hand. Murray's logical system leaves out utilities of actors and bystanders after the exchange has taken place.

Murray has so far set up a couple of axioms and drawn one logical conclusion about social utility. We can lay out his system along these symbolic lines. Axiom no. 1 is A = +, axiom no. 2 is B = 0, and deduction no.1 is social utility = +. This might be called Murray's Actor Expectation Rule.

Murray's Social Utility Calculus

Expectations	Actors	Bystanders	Social Utility Sum
Before an exchang	+	0	+ plus 0 = +

We have to wonder how Murray is able to set bystander expectations to zero. He did this by rhetorically calling bystanders "irrelevant." But isn't he employing his own prohibited "hypothetical imaginings" here? How can Murray know what bystanders' expectations are before an exchange takes place? By his own standard, only "demonstrated preference" can provide information about expectations. And we have no demonstrated preference from bystanders. Their expectations are completely unknown. Properly, I believe that bystanders utilities should be designated by a question mark. I emphasize again that Murray does not address utilities of actors or bystanders after an exchange is made. He leaves them as unknowns and I have so designated them in my revised system matrix.

My Revised Social Utility Calculus

Expectations	Actors	Bystanders	Social Utility Sum
Before an exchange	+	?	+ plus ? = ?

Actualization (not addressed by Murray)

Expectations	Actors	Bystanders	Social Utility Sum
After an exchange	?	?	? plus ? = ?

If I am correct in saying that Murray's system should have a question mark in place of the zero he assigned to bystanders' expectations before an exchange, then social utility before a voluntary exchange is unknown and Murray's expansive conclusion that "the free market benefits all participants" is a false deduction even for social expectations of voluntary exchanges, let alone for the social utility after an exchange.

This completes Section V(a).

Section V(b) is titled "The Free Market and the 'Problem of Distribution'". We are already led to believe, on pages 250-251, that there is no "problem of distribution". Section V(b) consists of three brief paragraphs. Murray says he is addressing the distribution of income and assets. The first paragraph has, as usual, nothing to say.

In the second paragraph he writes:

A man's monetary assets have been acquired precisely because his or his ancestors' services have been purchased by others on the free market.

This is obviously historically inaccurate. This ignores slavery, theft, unjust laws and a myriad of historical reasons that the current distribution of assets does not have a just basis. Apparently, Murray is positing this as an axiom. He wants to start his discussion with a just distribution of assets in place, so he does this by fiat. This done, he writes:

…it follows directly that the "distributional" results of the free market also increase social utility.

So, given a just distribution to start with and given actors and exchanges in the free market and given the irrelevance of non-participants to the exchanges and ignoring after-the-fact utilities, it follows that the distribution going forward must also be just and social utility must increase. Murray again conveniently leaves out everything he doesn't know according to his "demonstrated preference" rule: bystanders' expectations before exchanges are made and most crucially actors and bystanders' actualizations after the exchanges are made.

Next Murray tackles the role of governments in impacting distributional issues. In doing so he ignores the historical effects that governments have had in shaping the current distribution of income and wealth as well as how this may affect his assumption that the current distributions of wealth and income are just. One thing Murray clearly doesn't want to

touch is how in the world to straighten out the obvious unjust distribution of income and wealth that currently exists. [6]

Here is what Murray has to say about government actions:

When the State takes from Peter and gives to Paul…such State action obviously <u>and demonstrably</u> benefits one…and injures another….

That is quite a mouthful. First, we have to understand that Murray is using an imprecise and pejorative term, the State, to designate any government entity. Secondly, he is talking about taking from one person and giving to another person. Governments rarely engage in so simple a transaction. And the actions of governments involve a vast number of complex roles in society, few of which can be forced into the framework of taking from Peter and giving to Paul. So, analytically, Murray is describing a very tiny bit of possible government actions. But never mind. Let's move on. Such an action, says Murray, demonstrably benefits Paul and injures Peter. But just one minute. Let's look at Murray's logical system. By demonstrated preference, only the actors—in this case, government agents—demonstrate a preference and can be assigned a positive expectation of benefit. If we accept Murray's social utility matrix of expectations, we must conclude that the social utility of expectations will always increase from

[6] Conceptually, equitable wages may be achieved with minimum and maximum wage limits and a reset of wealth to an equitable distribution could place everyone on a just footing.

State actions. According to Murray's rules, actors are assigned a positive expectation of benefiting and bystanders are assigned a zero. The sum, as in the case of free market exchanges, is always positive. Thus, Murray's conclusion should be that government actions always increase social utility.

In contrast, under my revised rules we don't know anything about Peter and Paul's value scales by demonstrated preference. And consequently we don't know anything about social utility either.

My Revised Social Utility Calculus

Expectations	Actors	Bystanders	Social Utility Sum
Before a transfer	+	?	+ plus ? = ?
Actualization			
After a transfer	?	?	? plus ? = ?

This is the end of Section V(b).

Section V(c) is called The Role of the *State*. This section consists of seven short paragraphs.

Murray's first paragraph, as usual, doesn't have anything to say. In the second paragraph he writes:

Suppose that the government prohibits A and B from making an exchange they are willing to make. It is clear that the utilities of

both A and B have been lowered….On the other hand, there has been a gain in utility (or at least an anticipated gain) for the government officials imposing this restriction….

…we can say nothing about social utility in this case.

Murray's rule here is that a qualitative loss plus a qualitative gain equals an unknown sum of social utility, just as I expressed it in my revised social utility calculus. Here Murray is considering government agents as actors in the same sense as free market actors making voluntary exchanges as far as utility expectations are concerned. But here Murray claims that he knows that A and B have both lost utility. How does he know this? According to him, only demonstrated preference can show an expectation of gain or loss. But there is no demonstrated preference here. "Demonstrated preference, as we remember, eliminates hypothetical imaginings about individual value-scales," as Murray wrote as the first sentence of paragraph 2 in Section V. Now he tries to slip this unjustified change in approach past us. It won't work. Either A and B are irrelevant bystanders, as in Murray's social utility matrix of expectations, or their value-scales are unknown, as in my revised matrix of expectations. If Murray's original matrix of expectations applies, then all government prohibitions of trades between A and B increase social utility. If my revised

matrix of expectations is accepted, we can say nothing about social utility in this case.

Writes Murray:

The same conclusion follows in those cases where the government forces C and D to make an exchange.

Under Murray's original rules matrix, social utility must always increase in this case as well because C and D show no demonstrated preference.

Under my revised rules matrix, social utility is unknowable.

At this point, Murray simply goes off the rails. He writes:

But taxation is just such coerced exchange.

We conclude therefore that no government interference with exchanges can ever increase social utility.

But Murray just told us that social utility is unknown in this case; "we can say nothing about social utility in this case," he wrote earlier.

…since all government actions rest on its taxing power, we deduce that: <u>no act of government whatever can increase social utility</u>.

Same comment.

Let me repeat. Murray's own matrix of actor and bystander expectations only allow him to address actor expectations before a voluntary exchange or a government agent transaction. And his original axiom that bystanders are irrelevant and that their expectations should be set to zero, means that all free market transactions and all governmental actions must increase social utility. I'm sure that no one, including Murray, would accept this. Under my revised rule that bystanders expectations are unknown, nothing can be said about social utility regarding market or governmental transactions before an action is taken. Murray is engaging in "hypothetical imaginings about individual value-scales" when he sets market bystander utilities to zero and later when he sets the utilities of those acted upon or affected by government agent actions as negative.

As I have tried to make clear, Murray failed to address the most important issue about all transactions: what is the social utility outcome for everyone, whether actors or bystanders, after an action has been taken? Are we all truly better off after a transaction? Murray's system of axioms and deductions doesn't touch this issue.

Common-sense Conclusions

Here are some common-sense conclusions we all can understand.

Any specific transaction on the market may lead to a gain, a loss or a neutral social utility outcome.

Any government action, whether interference in trade or taxation or whatever, may lead to a gain, a loss or a neutral social utility outcome.

Only empirical analysis can shed light on the social utility of any specific private or public action. Private transactions may harm bystanders more than they benefit the actors. And government actions can benefit some bystanders more than they harm other bystanders. For example, taxing billionaire Paul and giving funds or services to Peter may increase social utility. No axioms or purely logical procedures can answer these questions.

Murray's "reconstruction" (1956) was a dismal failure. Moreover, Murray seemed to agree in his later writings. In Man, Economy and State, (1962) Volume II, page 772 he writes:

But what of utilities ex post? People may expect to benefit when they make decisions, but do they actually benefit from their results?

…the answer is that the market is constructed so as to reduce error to a minimum.

And in his Power and Market (1970), page 15 he wrote:

Error can always occur in the path from ante to post, but the free market is so constructed that this error is reduced to a minimum.

No more axioms, no more logical implications, no more apodictic certainty. Murray seems to point toward empirical and historical data as the arbiter. Maybe actors are better off after their actions and maybe not. Maybe bystanders are better off after actors' act and maybe they are not. Maybe society is better off after government agents act and maybe not. Ex post utility outcomes cannot be determined by axioms. Furthermore, saying that the market reduces expectation errors to a minimum is meaningless rhetoric. Nor does Murray give any empirical evidence to support this empirical assertion.

The old debater's tricks that Murray learned in his experiences as a boy arguing with his relatives and in high school arguing with his classmates and in college as a gold award champion debater at Columbia University continued to be his stock in trade throughout his life. Substituting rhetoric for reason and logic was standard operating procedure for Murray. The question that his father might ask, were it possible, is why Murray Newton Rothbard didn't use his enormous intellect to pursue objective studies and scientific analysis in order to make original contributions to human scientific knowledge, as his namesake Isaac Newton did?